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MAY 1985

INCENTIVE

AMERICAN AIRLINES

Do People Make The Difference?

PLUS

- Beyond Sales: Insurer Tests New Measures
- Do's and Don'ts In Sweepstakes Law
- How Honda Rates Its Accountants
- Incentive Show Update

A Bill Publication

MAY 1989

INCENTIVE

85th YEAR, VOL. 163, NO. 5

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American's Quality of Work Life emphasis is hardly a matter of altruism. Airline analysts agree that a motivated work force is one of the company's most important assets.

AMERICAN AIRLINES

Do People Make The Difference?

BY MICHAEL GATES

Quality of Work Life, the phrase American Airlines uses to describe its employee motivation efforts, sounds more like one of those euphemisms corporations routinely invent to disguise manipulative management techniques. But by most reports, American strives to give the words real meaning. It has to. Contented employees — and the customer satisfaction they create — make a big difference in the deregulated skies of the late 1980's.

Yet as important as Quality of Work Life (QWL) is to Dallas-based American, it all began with a chance encounter. "I remember how it started," said Robert Crandall, chairman and president of the carrier, in a speech to the company's first system-wide QWL seminar in 1987. "Some years ago I was in a rap session with some mechanics in New York, in a hangar late at night, when a veteran employee declared flatly, 'I don't like you.'"

The disgruntled worker, who had 30 years' experience with American, was angry at being denied extra time off to prepare for his daughter's wedding. "That little incident told me there was something wrong," Crandall said, "something that had to be fixed."

The "fix" became QWL, which Crandall says has a "simple" goal: to create an environment where every employee is treated with dignity and respect.

Despite the lofty rhetoric, QWL is hardly a matter of altruism. Though airline analysts note that other factors are equally important, most agree with Samuel Buttrick, an analyst at Memphis-based Morgan Keegan, who says that "harmonious labor relations are a tremendous asset to any carrier — they show up in the productivity statistics."

Motivated, productive workers do not come cheaply — and American has among the highest labor costs in the industry (see chart). But as Buttrick notes, the high price a company must pay for a happy work force can be mitigated through increased productivity and efficiency. That's a big reason why QWL, and all the programs associated with it, are so important to American — one of the decade's most profitable domestic airlines.

When asked to define Quality of Work Life in practical terms, Jan McCormick, coordinator for the program, explains that QWL groups have met in each American Airlines location since 1984 to discuss the barriers to good morale and efficiency. Issues of communication, work redesign and goal setting often arise, and action plans to correct problems emerge from the discussions.

But American's QWL efforts go far beyond brainstorming and troubleshooting. In addition to the efforts of the three-member QWL headquarters staff,

many other employee involvement programs within the company are designed to support the overall quality work life thrust. "Ideaas in Action," for example, is an extensive suggestion program with four goals, according to program manager Robert Stolz:

1. Generate profits from employee ideas.
2. Promote a sense of involvement.
3. Develop an entrepreneurial attitude among employees.
4. Support the corporate QWL program.

"It's designed to develop a sense of involvement, trust and loyalty, and to insure that [quality and efficiency] efforts will be reinforced and recognized," comments Stolz.

"Ideaas in Action" evolved from a trial suggestion program called "Idea Systems" that American mounted, with the help of Fenton, Mo.-based Maritz Inc., for 90 days in 1986. The program was introduced with "lots of hoopla and publicity" to virtually all of American's 60,000 employees, according to Stolz. All received a box containing party favors, hats and an enigmatic statement: "The party is just about to begin."

After some further explanation, ideas from employees began to pour in. The program, designed to save the company $12 million, actually saved nearly $50 million, Stolz claims. Workers whose ideas were accepted received merchandise from the Maritz catalogue.

Surprised and pleased with the results, American decided to institute a full-scale, permanent program under the "Ideaas in Action" banner in 1987. A staff of 50, including 40 full-time analysts who evaluate the ideas, coordinates it at headquarters.

Quality of Work Life has a "simple" goal: to create an environment in which every employee is treated with dignity and respect.

According to "Ideaas in Action" manager Beverly Kohrs, all awards for ideas accepted are issued in Maritz award credits. A minimum award is worth about $75; the maximum equals $37,500. Once the $20,000 level is reached, suggesters can take half the award in cash, if they prefer, and the rest in Maritz credits. Often, groups of employees submit ideas together and share the proceeds. Two groups in the airline's Chicago offices, for instance, combined to submit an idea for a PC-based communications and inventory tracking system that reportedly saved American $241,650 in the first year of implementation. Such lucrative suggestions earn the maximum number of award credits, which can be redeemed for cars and vacations, among other goodies. "A lot of our ideas come from our maintenance base and computer people," Kohrs comments.

Employees simply fill out an official form with their idea and send it to headquarters, where the analysts study it. They in turn present their findings and recommendations to the "implementer" — the person who would end up devoting budget dollars to the adopted suggestion, and who therefore makes the final decision.

AIRLINE EXPENSES: WHERE THE MONEY GOES

	American	Continental	Delta	Eastern	Northwest	TWA	United	USAir
Labor	36.4	22.0	41.6	35.4	31.3	30.7	34.9	39.0
Fuel	14.6	14.8	14.2	12.2	15.3	14.5	13.8	12.4
Landing Fees	2.0	2.1	1.8	1.7	2.3	2.1	1.7	1.9
Interest	2.4	6.3	0.8	7.5	0.3	7.0	2.8	1.0
Sales Commissions	10.7	8.8	11.1	7.1	19.4	9.5	14.0	7.9
Passenger Meals	5.0	3.2	4.5	2.8	3.3	3.5	3.6	3.4
Advertising and Promotion	3.1	3.0	1.1	3.1	1.4	2.5	2.8	1.5
Other*	25.8	39.8	24.9	30.2	26.7	30.2	26.4	32.9
1988 Operating Revenue (in millions)	$8,550	$4,700	$6,920	$3,800	$5,650	$4,360	$8,980	$5,710
1988 Operating Profits Before Taxes (in millions)	$8.06	($3.15)	$4.97	($3.35)	$2.05	$3.01	$6.65**	$4.34
Profit as % of Revenue	9.4	—	7.2	—	3.6	6.9	7.4	7.6

*Includes administration, communication, rental, insurance and utility expenses.
**Does not include sale of partnership.

Source: Blue Chip Airline Financial Indicators, Airline Economics, Inc., Washington, DC; airline annual reports.

Kohrs points to some impressive statistics for the program: In 1988 there were 12,116 suggestions, of which 23.1 percent were approved, with a cost savings of $31,408,000.

Also under the QWL umbrella is AAchievers, a program that simply recognizes employees for anything they do above and beyond the call of duty. Managers, crew chiefs, lead agents and other supervisors award AAchiever points for such feats as perfect attendance throughout a harsh winter, or helping out during an emergency. Employees redeem points for travel or merchandise.

"You're Someone Special" is a morale-boosting program designed to motivate employees to provide better service—but American frequent flyers do the awarding. Members of the AAdvantage club receive 16 cards at quarterly intervals, which they can present to any American employee who provides them with superior service. The recipients—generally flight attendants and reservation agents—can redeem the cards for credit from a merchandise catalogue or for travel. Each card is also entered into a drawing for travel prizes like weeks or weekends in London or Sydney. "New employees are particularly fond of it because [the travel awards] are not subject to the six-month probationary period for free travel," says recognition programs administrator Betsy Jacob.

The six-year-old program "keeps getting bigger and bigger," she says. "We're producing more and more cards, 10 to 15 percent more each year, and the redemption factor was up significantly between 1987 and 1988." She admits that the increases are due partly to a growing number of AAdvantage members.

There is no limit on how many cards an employee can collect, Jacob reports. One first-class flight attendant, for example, collected 100 cards during the first month of the 1989 program.

The "Special" program, an annual affair, has done much to improve service, the company claims. Independent consumer polls conducted by such magazines as Executive Travel, Frequent Flyer and Fortune during last year's campaign appear to back this up: They rated American tops in service among the leading domestic airlines. And in surveys of its membership over the last 10 years, the International Airline Passengers Association in Dallas also has rated American number one; Delta currently is a close second.

One big drawback of "You're Someone Special" is that it tends to reward only employees who meet the public face to face. Because customers choose the recipients, there's little chance for behind-the-scenes types to feel "special" under this particular program. "It's not equitable," says Jacob. "I hate to admit that, but it's not."

To remedy this problem, American created a program called "You Make the Difference" for employees in maintenance, baggage handling, computer services, etc. It works in a similar way, except that supervisors hand out the cards, not passengers.

The high price an airline must pay for a happy work force can be mitigated through increased productivity and efficiency.

According to McCormick, the company also has a commitment to work redesign, which he calls "the next phase of QWL—finding ways to do the job better," and improving goal setting between workers and supervisors through "better communication."

Other programs inspired by QWL include a biannual survey of employee attitudes. Both good and bad findings—and suggestions for improvements—are distributed to workers. Flight attendants, ticket agents and reservations people regularly take part in informal gripe sessions with managers. And the company has a four-year-old profit sharing plan based on productivity increases. In 1988, $121 million was proportionally distributed to employees, based on salary and seniority.

Sounds great, doesn't it? But are these programs really what make the difference in morale at American? The company is still no worker's paradise, and morale and motivation don't appear to have reached the highest altitudes. Flight attendant Alan Fahringer, who is national communications coordinator for the Association of Professional Flight Attendants (APFA) union, claims there is a fair amount of dissatisfaction among coworkers. "I won't say morale is bad, but people now appreciate that it was better before 1983," he says.

He refers to the institution of a two-tiered wage system at American that year—a concept pioneered at the airline, he says, by none other than Robert Crandall. "I was on the negotiating team [that year]," he says. "APFA represented 20 percent of the work force and less than 10 percent of the wages and compensation, company-wide. We said 'You're already getting low wages from us.' "

But the two-tiered, A-B scale system prevailed, and "B-scale wages hit everybody like a brick in the face," asserts Fahringer. "We were a house divided." The tiered wage system divided workers—pilots and Transport Workers Union of America members as well as flight attendants—into "haves and have-nots," he says. "It festered for three years before we went back to the table."

APFA just concluded its most recent negotiating agreement with American last December. "It was kind of a nasty deal," comments Fahringer. "There was a threatened strike during the holidays, and a lot of bad blood between the APFA management and American." The former two-tiered pay scale for flight attendants has now been unified, though Fahringer calls this "a better disguise." Entry level salaries for flight attendants are frozen, he reports.

When contract talks come up again in 1992, the union intends to do some hard bargaining, saying in effect, "The company is doing so well, the pie is fat," he notes. "We'll say 'employees bought and paid for all this prosperity in the 1980's, now in the 1990's we want some back.' "

Fahringer admits that flight attendant morale is "generally good"—but

CONTINUED ON PAGE 138

FACTS SURVEY

Consumer Incentives

Promotion-induced sales gains should reach 19 percent this year—up from last year's dismal 16.1 percent showing.

After a sluggish 1988 for consumer incentives, moderate optimism has returned. Marketers, who forecast usage gains of 6.3 percent this year, seem hopeful that these promotional stimulants will boost sales and yield other favorable results.

According to **Incentive**'s survey, expenditures rose 4.7 percent last year—although food-products makers, who do 28 percent of consumer promoting, advanced only 2.3 percent.

This year, sales gains resulting from promotions are expected to reach a comfortable 19 percent—up from last year's dismal 16.1 percent showing—which may explain the projected spending increase. Measuring promotion-induced sales gains is chancy at best, but most users have a good sense of what the programs achieve. And these marketers reported sales increases in the 19 percent to 20 percent range for four straight years before last year's downturn.

Use of other types of incentives also can be an effective indicator. Last year, consumer incentive users were decreasing their use of sales incentives. This year's study, by contrast, forecasts a 14 percent increase in sales incentive programs.

Food marketers were not the only group to hold back in 1988. In fact, eight of the top user industries failed to keep up. Only toiletries and cosmetics, the very large second-ranked industry, moved significantly: It increased consumer promotion by 12.2 percent. Paper products and packaging firms were close behind, increasing spending by 11.9 percent, and paints and varnishes gained 10.8 percent. Hardware companies added about 9 percent to their incentive budgets.

Seven industry groups were particularly conservative last year: automobiles and trucks, apparel, furniture and floor coverings, heating and air conditioning, industrial chemicals, machinery and feed, and fertilizer and farm supplies. Among these, chemicals had the greatest expansion at 1.3 percent. Machinery manufacturers reduced spending by 0.6 percent, and car makers' incentive efforts dropped 5.6 percent from the previous year.

The auto industry has made particularly big cuts in promotional spending. Used more and more as a euphemism for discounting, the word "incentive" no longer refers to added value promotion in the auto business.

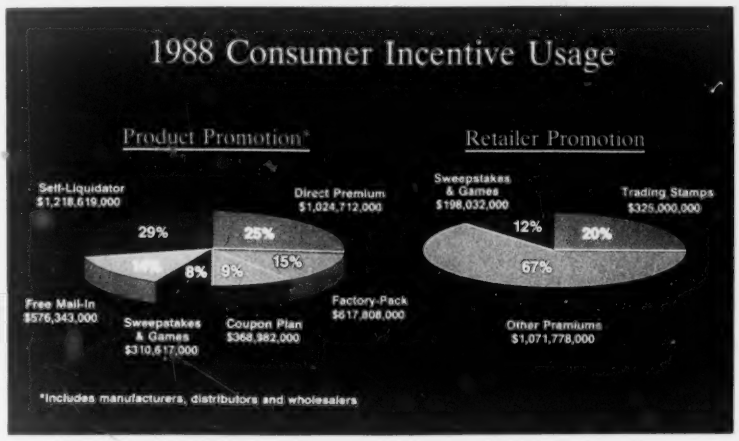
Mail-in promotions rose an estimated 5.5 percent last year, outdoing direct premiums, which gained 3.8 percent. Of the three types of mail-ins, sweepstakes made the strongest showing, up 9.7 percent, while self-liquidators rose 6.2 percent and free mail-ins gained 3.4 percent. The direct premium's modest growth of 3.8 percent came almost entirely in the factory-pack category; basic direct premiums and coupon plans increased only 0.2 percent each.

The coupon plan's fortunes, however, may be changing under the new label of "frequent-buyer" promotion. Though a relatively small category (estimated at $369 million in 1988), it is projected to grow by 15.7 percent this year.

Users predict they will spend another 13.2 percent on self-liquidators, which accounted for expenditures of more than $1.2 billion last year. Free mail-in offers ($576 million last year) should also grow by 11.1 percent.

Overall, the 6.3 percent expansion is skewed in favor of direct premiums, up 6.7 percent. Mail-ins were up 5.8 percent. Total incentive expenditures for both categories in 1988 came to nearly $4.2 billion. The rate of growth now projected will bring this year's spending to about $4.37 billion.

Users of direct premiums plan a median of four such

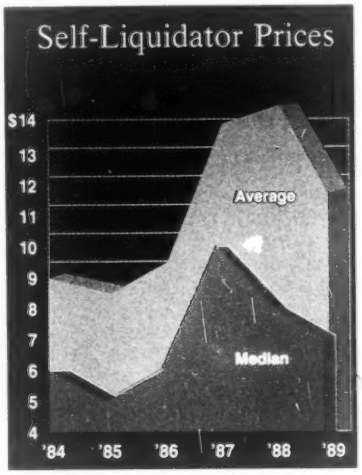


promotions this year, after a drop to three in last year's survey. Advertisers favoring mail-ins use a median of three, and those who use both types of promotions report a median of five a year. The averages, however, are considerably higher and somewhat misleading, since prolific marketers may conduct as many as 50 promotions annually.

Direct mail has long been the favored vehicle for communicating consumer offers. But its dominance has slipped somewhat, yielding ground to both point-of-purchase advertising and newspapers. Each method is used by more than 40 percent of the survey's respondents. Last year's 27-point spread between direct mail and point-of-purchase shrank to a mere 3 points:

- Direct-mail 49%
- Point-of-purchase 46%
- Newspapers 41%
- Television or radio 26%
- Trade publications 20%
- On-package advertising 15%
- Sunday supplements 15%
- Consumer magazines 12%

Direct mail has long been the favored way of communicating consumer offers; today, its dominance has slipped, yielding to point-of-purchase materials, which follow close behind in popularity.



Point-of-purchase users this year estimate that, on average, 58 percent of dealers will use the materials provided, up from 49 percent a year ago. The perceived value of incentive displays seems to have risen as well: This year users expect a 31 percent gain in display usage during promotions, against 26 percent last year.

Three of ten users surveyed conduct self-liquidating offers, the largest single type of consumer incentive. Estimates this year suggest a decline in asking prices, now averaging $11.64, down from $14.38; the median also has dropped, to $6.95 from $8 in the 1988 survey.

But the meaning of "self-liquidating" continues to change. This year,

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RESPONSE RATES

MEDIAN NUMBER OF RESPONSES PER 1,000 ADVERTISING EXPOSURES FOR MAIL-IN OFFERS

	PRINT	BROADCAST	DISPLAY	PACKAGE
Self-liquidator under $10	10	5	4	8
Self-liquidator $10 or more	9	8	10	6
Free mail-in offer	21	27	13	14

users say they will liquidate 70 percent of the product's cost; five years ago, users liquidated about 93 percent of the actual cost.

Much confusion results from the questionable practice of adding charges for postage and handling. These are often announced in minuscule type and border on deception: Some charges appear excessive in relation to established costs of fulfillment. This year, 42 percent said they used such extra charges, down from last year's 47 percent. Several years ago as many as 76 percent of users claimed to separate such costs.

Although self-liquidator prices are somewhat lower among this year's respondents, perceived price ceilings continue to rise. Asked "At what price point do you believe consumer response drops significantly?" respondents' answers averaged $33.60, up from the $27.50 average found in the 1988 survey.

No clear evidence shows that testing an incentive offer brings significant advantages. In fact, users are sharply divided on the matter: Only 37 percent said they test mail-in offers, while 55 percent test direct premiums. Most companies still prefer personal interviews, despite the escalating costs:

- Personal interviews 46%
- Mail questionnaire/ballot ... 24%
- Single offer by mail 21%
- Consumer panel 21%
- Bounce-back 18%
- Newspaper split run 9%
- Store panel 9%
- Package inserts 3%

A lack of reliable results probably accounts for the disagreement about

EFFECTIVE TECHNIQUES

% OF CONSUMER PROMOTION USERS WHO CONSIDER EACH TECHNIQUE MOST EFFECTIVE FOR REACHING EACH GOAL

	GET SHELF ATTENTION		SELL-IN TO DEALERS		BOOST REPEAT SALES	
BEST	DIRECT PREMIUM FACTORY-PACK	29% 16%	DIRECT PREMIUM COUPON PLAN	29% 8%	COUPON PLAN DIRECT PREMIUM	28% 16%
WORST	SELF-LIQUIDATOR	3%	SELF-LIQUIDATOR FREE MAIL-IN	3% 3%	SELF-LIQUIDATOR	5%
	SALES TALKING POINT		**BUILD USER GOOD WILL**		**GAIN AD READERSHIP**	
BEST	DIRECT PREMIUM FACTORY-PACK	13% 11%	COUPON PLAN DIRECT PREMIUM	18% 18%	SWEEPSTAKES COUPON PLAN	16% 13%
WORST	SELF-LIQUIDATOR	3%	SELF-LIQUIDATOR	1%	FACTORY-PACK	3%
	OBTAIN STORE DISPLAYS		**SAMPLE NEW USERS**		**COST-EFFECTIVENESS**	
BEST	DIRECT PREMIUM SWEEPSTAKES	26% 13%	DIRECT PREMIUM FREE MAIL-IN	24% 13%	FACTORY-PACK DIRECT PREMIUM	18% 16%
WORST	SELF-LIQUIDATOR	2%	SELF-LIQUIDATOR	3%	SELF-LIQUIDATOR	3%

testing. But users this year are more hopeful about their forecasts. They expect an accuracy of plus or minus 22 percent as opposed to last year's estimate of plus or minus 26 percent.

Based on these accuracy estimates, sponsors actually will need from 780 to 1,220 pieces for every 1,000 responses anticipated from an offer. With the plus or minus 26 percent accuracy range reported last year, promoters would need anywhere from 740 to 1,260 pieces per 1,000 responses.

Though 54 percent of testers said they are satisfied with these measures of accuracy, most users forgo testing mail-ins and 45 percent do not test other offers.

Fifty-six percent of respondents feel that an incentive should be "related" to the product with which it is offered, down five points from last year's study. And 62 percent believe that retail-value claims for offered goods should be included in advertising.

The cost of a free mail-in product in relation to the required retail purchase dropped slightly this year to 23 percent from 26 percent last year. The average number of purchase proofs necessary in these offers remained steady at about 2.5 this year.

The situation is similar for factory packs, although the final arithmetic is very different: This type of direct premium accompanies every package, rather than going out only to the relatively few consumers who respond by mail. Users, on average, devote 18 percent of the retail selling price to incentive items, up from 17 percent last year; the median is 10 percent.

Despite the high cost of factory packs, users rate them second as a means of getting shelf attention and providing a talking point with the trade. Eighteen percent, the largest number, rank factory packs first in overall cost-effectiveness.

The direct premium, as usual, captures the lead for effectiveness in the survey, taking top position in five out of nine categories this year (see chart page 46).

The coupon plan, after a long period of decline, is seeing a revival. Users this year give coupons top honors for boosting repeat sales and building user good will, and they come in second as a means of selling-in to dealers and gaining ad readership.

Meanwhile, the self-liquidator fell to the bottom in nearly every category. It is no longer even considered cost-effective, which was its only advantage until this year. Yet it remains the most widely used consumer incentive and one that users say they will invest in heavily this year. □

Only 37 percent of respondents said they test consumer offers; those that do expect an accuracy rate of plus-or-minus 22 percent, compared with 26 percent last year.

Society of Incentive Travel Executives

—PRESENTS—

1989 UNIVERSITY OF INCENTIVE TRAVEL

JUNE 25-30, 1989 • LAS VEGAS

Getting Close to Your Customers

How well do you know your customers? Is your company really meeting their needs? Are you sure that you're selling to the real decision-makers? Using incentive travel as a model, this year's University of Incentive Travel will explore how your company can better serve its customers, influence the right people and increase your chances for repeat business.

A top-flight faculty of academicians, corporate marketers and experienced SITE members explore the numerous applications for incentive travel and how it can be enhanced to meet new opportunities and challenges. Designed for both users and suppliers of incentive travel, the program includes multi-level courses for beginners and experts. The program is open to both SITE members and non-members.

At the university's famed "night school" you'll experience up-close how the USA's capital of night life, Las Vegas, puts it all together to wow incentive winners.

Here's a preview of the 1989 program:

• Keeping Your Customers Loyal
Michael LeBoeuf, professor at the University of New Orleans, addresses how your company can better serve its customers and discusses the role incentive travel can play in the customer satisfaction movement.

• How to Reach Hard-to-Reach Buyers
Dr. Charles Dwyer, Ph.D., professor at Wharton School of the University of Pennsylvania, will lead a special one-day seminar that will help you find ways to identify and influence hard-to-reach decision-makers.

• Alternative Measures of Sales Performance
Don McAdams, senior vice president at the American Productivity and Quality Center, will address innovative new measures of sales performance used not only to improve the results of incentive travel campaigns but also to help you gain a new understanding of the components of successful selling.

• The New American Traveler
Paul Grimes, editor at large, Conde Nast's Traveler magazine, discusses changes in the way people are traveling and what these changes mean for incentive travel planners.

• Corporate Case Studies
Brian Ruder, vice president, consumer products, H.J. Heinz U.S.A.; Richard Powers, executive vice president, Harris-3M Corp., and other corporate executives discuss how their companies use incentive travel to meet management and marketing goals.

• Incentive Travel Around the World
SITE members from Australia, West Germany, Canada and other countries discuss growing incentive travel usage outside the United States.

• Freshman Orientation
Michael Hurwitz, president of United Incentives Inc., provides a special afternoon introduction to incentive travel for freshmen on the day before formal classes begin.

This is just some of what you'll find at this year's University of Incentive Travel. For more information, contact:

Dean of Students
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WARNING: Don't be disappointed. Last year's university was a sell-out, and space is limited. Please act now to guarantee your spot.